

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

February 16, 2007

In Reply Refer To:
Northern Natural Gas Company
Docket No. RP07-138-000

Northern Natural Gas Company
1111 South 103rd Street
Omaha, NE 68124-1000

Attention: Mary Kay Miller
Vice President, Regulatory and Government Affairs

Reference: Rate Schedule PDD

Dear Ms. Miller:

1. On January 19, 2007, Northern Natural Gas Company (Northern) filed revised tariff sheets¹ to incorporate into its tariff changes that would allow shippers operating under Rate Schedule PDD (Preferred Deferred Delivery) to reduce their contract quantity or terminate their contracts upon payment of a mutually agreed-upon termination fee to Northern. Northern proposes three specific changes to its tariff. First, it incorporates the following language into section 2 of Rate Schedule PDD: "In the event that a PDD transaction is terminated prior to its expiration or the contract total quantity is reduced thereunder, Northern may, on a not unduly discriminatory basis, agree with the Shipper on a termination fee. The termination fee shall take into account the remaining value of the transaction's service parameters." Second, Northern proposes to include this provision on its list of tariff-permitted provisions in service agreements set forth in section 58 of its General Terms and Conditions (GT&C).² Also, Northern proposes to include in its *pro forma* Preferred Deferred Delivery Service Agreement a space for including any such termination provisions. Northern states it will implement all

¹ Third Revised Sheet No. 142A, Fifth Revised Sheet No. 308 and Second Revised Sheet No. 445, to its FERC Gas Tariff, Fifth Revised Volume No. 1.

² Section 58 of Northern's GT&C sets forth generally applicable tariff provisions that Northern may include in service agreements without having to file the agreement as non-conforming.

termination fees in a manner that is not unduly discriminatory. It states that it is making the subject filing because PDD shippers have inquired about early termination of PDD transactions. Northern further states that these inquiries result primarily from changes in the forward natural gas market and its associated impact on the value of PDD transactions. Furthermore, Northern states that there is no obligation by any shipper or Northern to terminate or reduce an existing transaction. Northern claims that this provision will add value to PDD service by offering shippers a mechanism to trade in and out of PDD deals to take advantage of liquidity in the market, when it is mutually beneficial to both Northern and the shipper. Northern requests a February 19, 2007, effective date for its tariff sheets.

2. Northern's filing was noticed on January, 22, 2007. Notices of intervention and unopposed timely filed motions to intervene are granted pursuant to the operation of Rule 214 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.214). Any opposed or untimely filed motion to intervene is governed by the provisions of Rule 214. Madison Gas and Electric Company's (MGE) motion included a comment. Northern filed an answer to MGE's comment.

3. MGE states that it does not oppose Northern's proposed changes. However, MGE states that it is concerned that, absent clarification, the proposed tariff changes create the potential for discrimination due to a lack of transparency. MGE states that the proposed provision does not require Northern to post the termination fee or the relevant terms and conditions of the underlying transaction. MGE claims that posting such information would be consistent with Commission policy with respect to negotiated rate transactions, where transparency is critical to the ability of the Commission and interested parties to review transactions to monitor against undue discrimination.³ MGE asserts the Commission should require Northern to post any termination fees on its website, and recommends that Northern incorporate the following underlined language into section 2 of Rate Schedule PDD:

In the event that all or a portion of a PDD transaction is terminated prior to its expiration, Northern may, on a not unduly discriminatory basis, agree with the Shipper on a termination fee upon termination of a PDD service agreement prior to its expiration date. The termination fee and all relevant terms and conditions of the underlying transaction (including the name of the shipper, any other applicable charges, and the volumes involved) shall be posted on Northern's website. The termination fee shall take into account the remaining value of the transaction's service parameters.

³ See, e.g., *CenterPoint Energy Gas Transmission Co.*, 108 FERC ¶ 61,016 at P 6 (2004).

4. On February 5, 2007, Northern filed an answer to MGE's comment stating that it agrees that it will post under Transactional Reporting on its website the provisions associated with the PDD termination fee. Northern states that it is required to post such information pursuant to section 284.13(b)(1)(viii) of the Commission's regulations, which delineates the special details a pipeline must post for transportation service contracts. Northern also states that it has included the PDD termination fee on the list of tariff-permitted provisions in service agreements provided in section 58 of its GT&C. Furthermore, Northern states that during the proceedings in Docket No. RP03-235-000, in which section 58 was accepted by the Commission, Northern specifically outlined its obligation to post these provisions in its transactional report to provide transparency for shippers and ensure against undue discrimination. Northern does not believe the additional language suggested by MGE is necessary, arguing that posting the transactional information on its website pursuant to section 284.13(b)(1)(viii) addresses MGE's concerns.

5. The Commission accepts Northern's revised tariff sheets effective February 19, 2007, as proposed. Northern proposes to offer PDD contract quantity reduction or termination (with a possible negotiated termination fee) to all shippers through its generally applicable tariff. Accordingly, Northern has offered to provide this service in a manner that is not unduly discriminatory. Further, since Northern includes this provision on its list of tariff-permitted agreement provisions set forth in section 58 of its GT&C, having a space in its *pro forma* Preferred Deferred Delivery Service Agreement to incorporate any termination fee provisions is acceptable. The Commission also shares MGE's concerns regarding the transparency of any possible termination fees imposed as a result of the subject provisions. However, in this case, Northern is required by section 284.13(b)(1)(viii) of the Commission's regulations to post such information on its website as a special detail to a service agreement. This requirement should alleviate concerns raised by MGE. Further, since posting termination fees on its website is already required by Commission regulation, we will not require Northern to incorporate the language suggested by MGE into its Rate Schedule PDD.

By direction of the Commission.

Magalie R. Salas,
Secretary.